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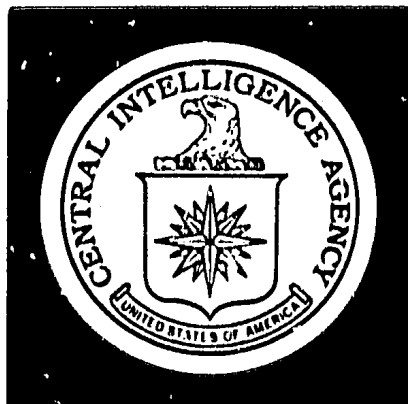


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Economic Conditions Within The Turkish Cypriot Enclaves*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
November 1970

INTELLIGENCE MEMORANDUM

Economic Conditions  
Within The Turkish Cypriot Enclaves

Introduction

In the June 1970 report of the UN Peacekeeping Force in Cyprus, the Secretary General stated that intercommunal economic cooperation could greatly contribute to reducing, and even overcoming, political differences between the island's two major ethnic groups.\* Turkey has stated that a significant disintegration of economic conditions within the 43 Turkish enclaves on Cyprus would be sufficient reason to intervene.

Leaders of Cyprus' Turkish and Greek communities view possibilities for increased economic cooperation from very different points of view. The Greeks, with very little to risk, have become increasingly willing to offer economic incentives to the Turkish Cypriots to induce them back into the Greek-controlled community. The Turkish community, however, sees this as an attempt to weaken their solidarity and thereby reduce their bargaining position in the intercommunal talks now in their fourth round.

\* The population of Cyprus in 1970 is estimated at 630,000, of which 78% are of Greek origin and 18% are of Turkish origin. The remaining 4% are mostly British, Armenians, and Arabs.

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence and the Office of National Estimates.*

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This memorandum describes the economic situation within the Turkish enclaves, examines the types of economic cooperation that have been resumed since a blockade severed normal economic relationships in 1964; and, given the unlikely prospect of a near-term settlement and the limited resources available to the Turkish community, assesses the economic future of the enclaves.

**Background**

1. During the winter of 1963-64, a little more than three years after independence, violence between Greek and Turkish Cypriots led to a threat of invasion by Ankara and to the establishment by the United Nations of a peacekeeping force. In the course of the violence, virtually all Turkish Cypriots gathered themselves into separate enclaves. Turkish Cypriot Government members, including the Vice President, ceased to take an active part in governing the island and retired to the Nicosia enclave. At the same time, the Greeks set up an economic blockade of the major enclaves. The status quo prevailed until late 1967 when a crisis point was again reached and Turkey prepared to invade. Under pressure from the United States, Ankara was dissuaded and Athens removed large numbers of military personnel -- which it had sent clandestinely to Cyprus -- from the island as the first steps toward disengagement were taken. Most blockade restrictions were removed, imports were liberalized, the Turks were allowed freedom of movement throughout the island, and passports were issued routinely. Negotiations were begun in June 1968 between the Greek and Turkish Cypriots to find a permanent solution. However, sporadic incidents still occur, the peacekeeping force remains, the majority of the Turkish community is still in closed enclaves, and the intercommunal talks have made little progress. In fact, the frequency of meetings has been reduced.

2. Events of the past several months have reflected the periodic increases in tension characteristic of Cyprus. In the most recent serious

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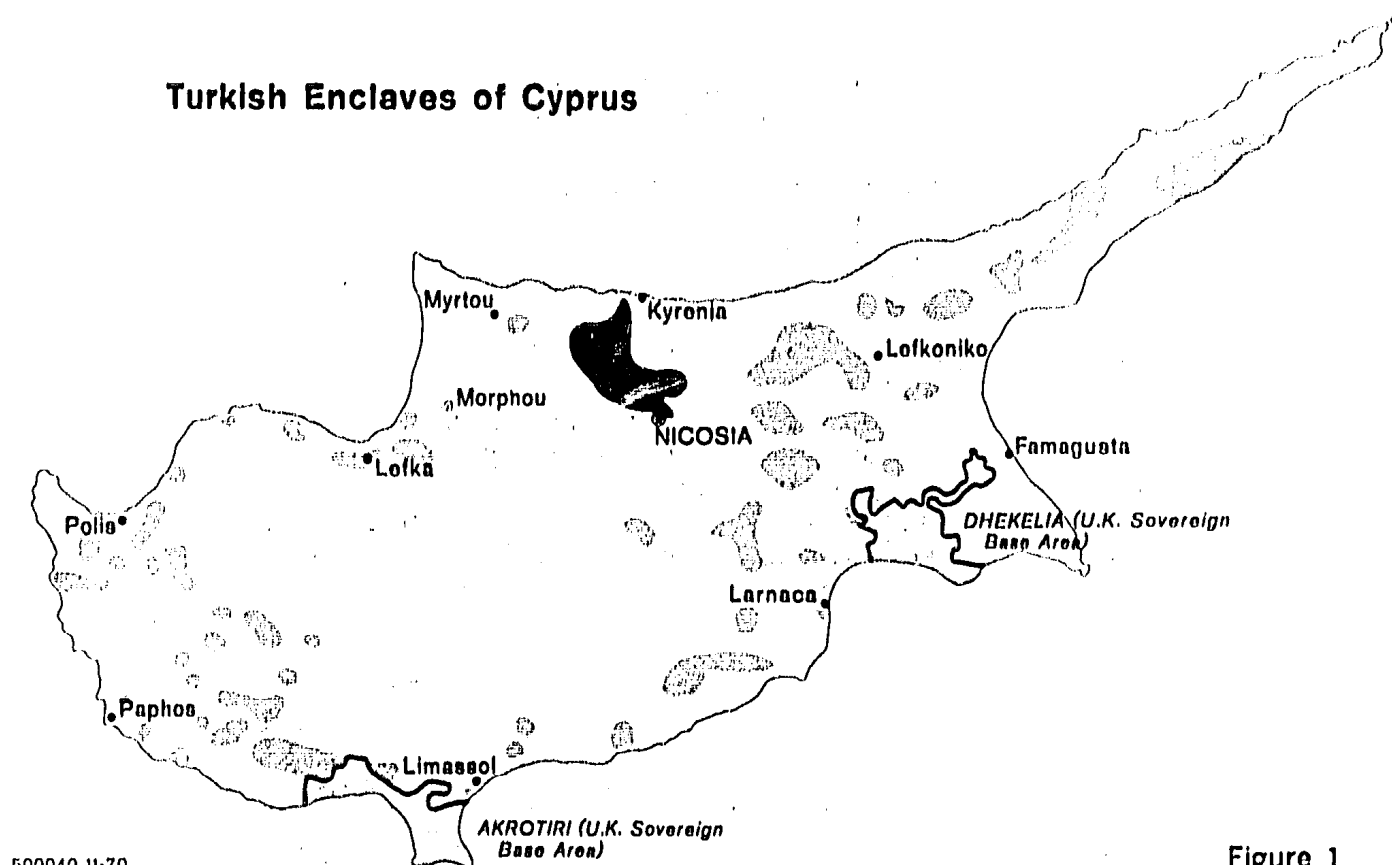
**SECRET****Turkish Enclaves of Cyprus**

Figure 1

incident the government deliberately challenged the inviolability of one of the enclaves to emphasize that freedom of movement should exist throughout the island for all Cypriots. This occurred in a Turkish village in northeast Cyprus, where a Greek unit was expelled on the grounds that it had violated the status quo by patrolling too often. At any time, such a confrontation could blow up into a larger conflict.

**Economic Activity in the Turkish Enclaves**

3. Each community is a microcosm of its patron. The life styles -- language, religion, customs, education, and technology -- of the mainland countries have been largely sustained by each community. The standard of living of the Turkish Cypriots continues to lag behind the Greek population as it did before the boycott. We estimate that the total resources available to the Turkish Cypriot community in 1969 were roughly \$50 million, and that per capita income of about \$400 was less

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than half that of their Greek counterparts, which is the existing ratio between Turkey and Greece.

4. The Turkish community's greatest asset is land. It owns about 17% of the total land area of Cyprus, of which approximately 11% is held within the 43 enclaves (see Figure 2 and the Appendix). In addition, there are villages where Turks and Greeks continue to live together. The overwhelming majority of Turkish Cypriots are employed in agriculture, producing crops on un-irrigated land. Grain is the principal crop produced, although some citrus fruits are grown in the northern and western areas. The 1956 land use in the Turkish enclaves is estimated below and probably has not changed significantly since then.

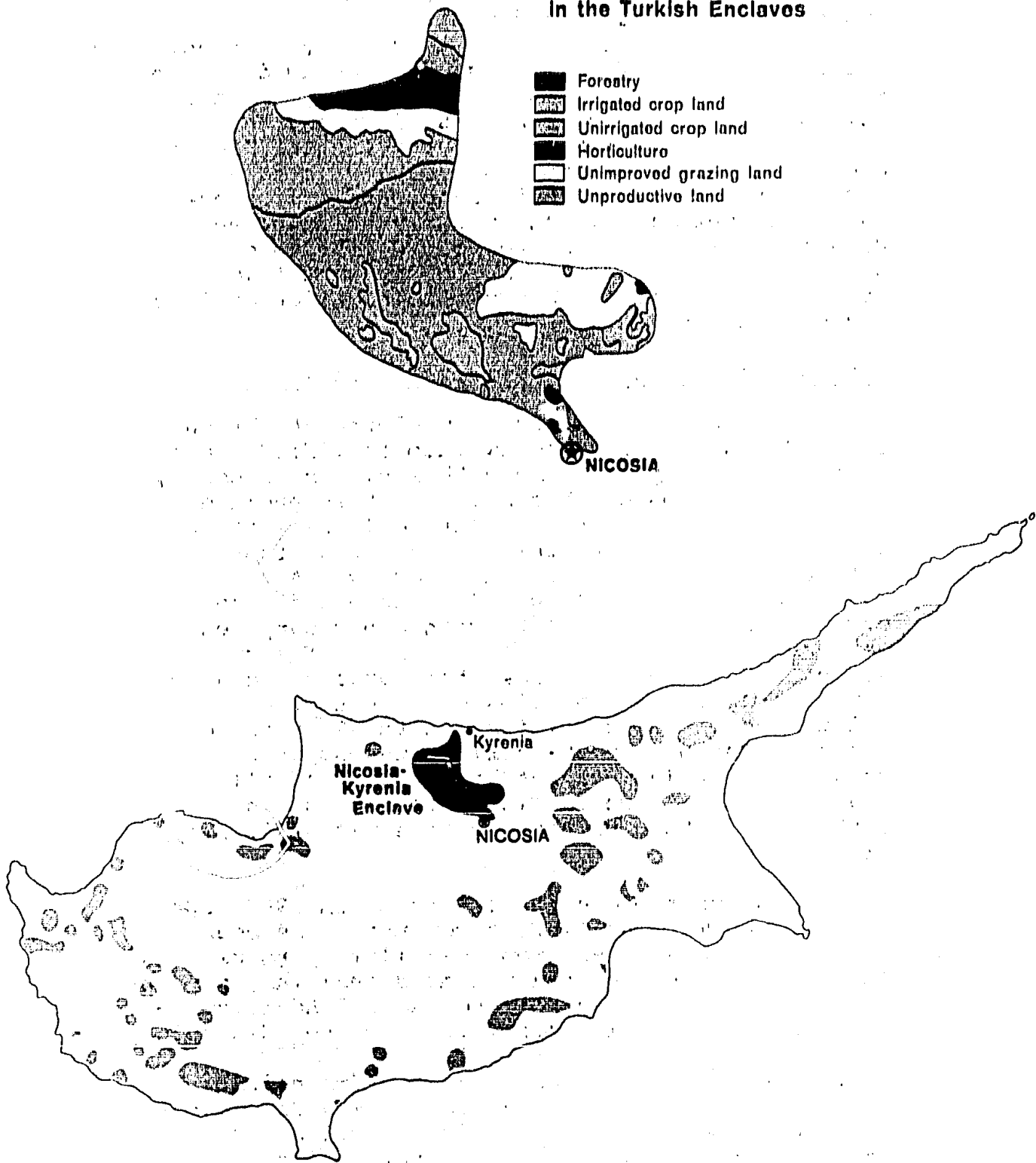
<u>Land Use</u>	<u>Area in Square Miles</u>	<u>Percent of Total Enclave Area</u>
Forestry	25.273	6.37
Irrigated crop land	69.446	17.51
Unirrigated crop land	247.199	62.31
Horticulture	0.324	0.08
Unimproved grazing land	53.786	13.56
Unproductive land	0.689	0.17
<i>Total</i>	<i>396.717</i>	<i>100.00</i>

5. Although there are few statistics on Turkish Cypriot industry, at least one small arms plant, a lime kiln, a cement factory, a few tanneries, and some cottage industry are known to exist. During the blockade of the major Turkish Cypriot enclaves, most existing manufacturing establishments were forced to close because raw materials were cut off, and there has been little recovery. Retail and service industries also were affected but have since revived. Construction has fared even better. The destruction caused during the clashes with the Greek Cypriots and the necessity of providing for the many Turks who took refuge in the enclaves has generated new demand.

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NICOSIA-KYRENIA ENCLAVE

An Example of Land Use Patterns  
in the Turkish Enclaves



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Figure 2

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6. Turkish Cypriots have continued to be employed in the country's mining activities throughout the period of political difficulties, but this source of income is being reduced. Copper and iron pyrite deposits are being depleted and some of the remaining reserves lie under the enclave town of Lefka. The Turks and the US-owned Cyprus Mines Corporation have failed to agree on terms for the sale of this land, and operations have been curtailed, resulting in unemployment. Even if these problems are solved, the long-term prospects for mining operations are not favorable, because costs will rise with exploitation of less accessible deposits.

Developments Since the Split: Controls ...

7. With the eruption of violence at the end of 1963, the Turks withdrew into fortified areas that traditionally had been theirs. In response, the Greeks imposed a blockade of these enclaves. Items that the government felt would benefit the Turks militarily (and this was given a liberal interpretation) were forbidden entry. After the UN force arrived in March 1964, essential items of food and clothing along with other supplies were channeled to the enclaves under UN auspices. Aside from the UN supplies, the Turks managed to smuggle goods into the closed sectors, thereby bolstering living conditions in the Turkish community. Throughout the period, necessary consumer goods apparently were not lacking. Gradually more and more imports were allowed the Turks, and in 1968 the blockade of the enclaves was officially lifted.

8. Since the easing of tension in 1968, control of the Turkish Cypriot community has been gradually transferred from the military to civilian leaders who operate an autonomous auxiliary government, the Turkish Cypriot Provisional Administration (TCPA).<sup>\*</sup> While information on the TCPA budget

<sup>\*</sup> *The leadership of the TCPA is principally staffed by disaffected Turkish Cypriot Government members, including Vice President Kuchuk. The enclaves have their own judiciary, police force, and school system. These arrangements are said to be "temporary."*

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is not available, the major source of income undoubtedly is the dole from Turkey. [ ]

[ ] the 1969 TCPA budget was approximately \$22 million -- 80%-90% being covered by mainland Turkish aid.\* In an effort to generate funds the TCPA engages in activities such as running a community lottery, licensing Turkish Cypriot vehicles, issuing building permits, and licensing the sale of cigarettes. These revenues are a small supplement to the Turkish contribution in meeting day-to-day expenses. Expenditures primarily are to support the TCPA bureaucracy and to provide welfare payments for the 15,000-20,000 refugees and for other unemployed Turkish Cypriots. Capital expenditures are negligible, probably less than 2% of the budget.

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9. The easing of hostilities has given the TCPA an opportunity to consider long-run developments within the enclaves. In early 1970, Vice President Kuchuk announced the TCPA economic program for this year, including plans for salary increases, borrowing money at bank rates and lending to Turkish Cypriot businessmen at lower rates, seeking foreign and UN aid, and establishing a development fund with Turkish support. Given the resources available to the TCPA, it is unlikely that these programs will amount to much.

10. Although the blockade has been lifted, the Turks are still subject to Cypriot laws regarding foreign trade. Certain goods may not be imported freely and licenses must be issued; this list includes agricultural and textile products, footwear, metal manufactures, and industrial machinery. Turkish businessmen normally buy through Greek wholesalers and import agents. Exports are also subject to some control. Potatoes, wheat, and barley must pass through government agencies. Licensing is required under certain circumstances for other products.

*\* There has been no official indication as to whether or not the 40% August 1970 devaluation of the Turkish lira will reduce the dollar amount of Turkish aid. The strong commitment of Turkey, however, would seem to preclude any substantial cut.*

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11. The Turkish community continues to use the Cypriot pound as its currency, and the Turkish banking community has remained under the control of the Central Bank of Cyprus. The foreign aid funds for Turkish Cypriots -- paid in sterling -- eventually enter the Central Bank's coffers. We estimate the net foreign exchange gain to the Cypriot Government, after paying for imports destined for the enclaves, to be approximately half of the dole -- that is, \$10 million in 1969. Turkey must find this particularly galling, yet Ankara has a strong political commitment to the enclave communities and aid will continue.

12. The government also controls public works resources. At the beginning of the hostilities, water and electricity were denied to some of the enclaves, but these services were quickly restored. The government has not, however, allocated funds to add to these utilities in the enclaves and obstructs the Turks' opportunity to make such improvements from their own resources. For example, the government refuses to license the import of generators necessary to meet the energy requirements of the Nicosia enclave. Power shortages remain an impediment to the startup and expansion of industry.

13. Efforts by individuals to reopen productive facilities have collided with a stone wall of resistance erected by both the Cypriot Government and the TCFA. Only one Turkish businessman has reopened outside of the Nicosia Turkish Quarter. Greek businessmen have found Turkish partners in seeking to reopen two textile mills on the Turkish side. The number of partnerships, however, is not expected to increase. The TCFA disapproves of any reduction of Turkish control of the enclaves. The government for its part is very slow to approve import licenses for Turkish Cypriot capital imports and in general has discouraged foreign companies from trading with Turkish enclave agents.

14. The anomalous controls under which economic activity takes place have undoubtedly inhibited the economic development of the Turkish community. The Turkish Cypriots have not been able to participate in the economic progress characteristic of the Greek Cypriot controlled

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areas, and the economic disparity between the two communities has steadily widened. In 1969 the Turkish Cypriots claimed that the resources available to the Turkish community had not increased during 1963-68. Although this may be slightly exaggerated, the blockade and other forms of harassment caused considerable economic difficulties during this period.\* Since the boycott was lifted in 1968 as part of the "peace initiative," the enclaves have achieved some progress.

... and a Recent Growth of Greek-Turkish Cooperation

15. The principal peaceful means available to the Cypriot Government to squeeze political concessions out of the Turkish community is economic suasion. On the one hand, the government entices unskilled labor out of the enclaves to help replenish the scarce labor supply in the Greek sector, which is operating at close to full employment levels. The government also encourages Greeks to purchase any land owned by Turkish Cypriots. On the other hand, Nicosia is extremely reluctant to do anything to strengthen the economic viability of the enclaves.

16. The greatest progress in intercommunal economic cooperation has been in agriculture. Turkish farmers market their produce on the Greek side. The Dairy Products Marketing Board has an ex-officio Turkish Cypriot serving in an advisory post, and the Grain Commission consults its Turkish ex-members from time to time and continues to cooperate with Turkish millers. In Morphou, Turkish citrus farmers participate with Greeks in the citrus cooperative, while in Paphos and Limassol Turkish vineyard owners sell grapes to Greek-owned distilleries. There is a good possibility that the two sides will agree to include

\* There is little reporting of economic data by the Turkish Cypriot Provisional Administration; the Cyprus Government, refusing to admit any separate status for the Turks, reports one set of statistics for the economy, probably including Turkish data when this is advantageous and available. The GDP growth rate for Cyprus reported by the government was 16.8% at current prices for 1969.

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Turks on the various agricultural marketing boards when the terms of the present board members expire. Beginning in 1968, the Turkish community began to participate in the United Nations Development Program for drought assistance and other UN activities, including soil conservation and tree planting programs and a mixed farming project designed to increase livestock production. During the current drought, Turkish and Greek farmers have jointly demanded government aid, and relief payments have been awarded to farmers from both communities. Turkish Cypriots also participate in the Agricultural Welfare Fund.

17. There has been some progress in labor cooperation. In recent years the president of the Turkish Cypriot Federation of Trade Unions (KTIBF) has been a member of the Cyprus delegation to the International Labor Organization. Turkish and Greek unions unite when negotiating with the Cyprus Mines Corporation and the British Sovereign Bases. Under the pressure of heavy unemployment in the enclaves, the KTIBF also expedites the use of Turkish labor on the Greek side, and at the beginning of the year about 1,200 Turks were working regularly for Greek employers.

18. Agreement was reached in the past year at the talks to reintegrate the Turkish Cypriots into the social insurance program. In June 1970 the first step was taken to implement this decision. A labor census of Turks was begun by the Cypriot Government after the TCPA allowed government officials to enter the enclaves as necessary. Except for workers employed by the British Sovereign Bases and the Cyprus Mines Corporation, the Turks stopped contributing to the program in 1964 when benefits were also discontinued.

19. Domestic trade controls have been liberalized. Turkish traders have free access to the Greek-held areas of the island. The TCPA lifted barriers to the sale of Greek products that competed with Turkish Cypriot products in early 1969, although Greek traders cannot enter the Turkish enclaves without special permission. Agricultural surpluses produced in the enclaves are sold to Greek cooperatives, traders, or processors. Nevertheless, the Grain Commission, which purchases

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grain at subsidized prices, deducts 25% from Turkish growers as a contribution to a compensation fund for Greek Cypriot farmers unable to cultivate their lands under Turkish control.

20. Cooperation in manufacturing and construction is more severely limited. The approval of the necessary import licenses for the erection of a Czechoslovak livestock feed mill worth about \$120,000 and contracted for by a Turkish Cypriot bank is a notable exception to the Makarios government's policy of limiting capital investment inside the enclaves. Outside the enclaves, some Turkish Cypriot contractors will be used to repair vacant Turkish homes that were damaged in the fighting.

### Prospects

21. The Makarios government has hindered economic growth in the Turkish enclaves with the goal of strengthening its hand at the intercommunal bargaining table. The government expects and extracts a political payoff for any economic facilities granted to the Turks. Its conditions for drought relief and social insurance include rights of inspection, reducing the inviolability of the enclaves. An ideal policy from the Greek point of view would be to continue nibbling away at the barriers until the enclaves dissolve in a sea of Greek Cypriot activity. The Turks, however, in the absence of a settlement -- and the outlook continues bleak for this outcome through the talks -- would be faced with acceptance of a situation of second-class citizenship. Thus the dissolution of the enclaves is certain to be vigorously opposed by the TCPA and more importantly, by Ankara. In support of its policy, the Cypriot Government can withhold the import licenses needed for practically every form of investment that the Turks might undertake. The government could also, at any time, interfere with the disposal of the agricultural surplus produced in the enclaves as well as any surplus that might be produced as a result of investment in industry.

22. Even if the government's import policy were relaxed, the Turkish community does not have

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significant sources of investment funds. The TCPA is constantly pressing Turkey for supplementary help. In 1969, Ankara promised \$1 million on a one-time basis for investment in Cyprus, but because of their own serious balance-of-payments problems, the Turks did not implement this commitment. With Turkey continuously in hard currency straits, the Turkish Cypriot community will not be able to depend on Turkey to increase their productive capacity. That significant private savings will materialize is also unlikely. Large numbers of the more affluent Turkish Cypriots already have emigrated, primarily to the United Kingdom.\* Those on Cyprus will remain reluctant to risk their savings so long as there is little prospect for an intercommunal settlement. The Cyprus Government will probably continue to discourage Greek investors from reopening their factories located in the Turkish sectors or from entering into partnerships with Turkish businessmen. Greek entrepreneurs who have moved in this direction have usually been informed that the government views such activities negatively.

23. In the absence of open hostility some progress will probably occur in agriculture, services, and trade, but with their own resources strictly limited and Greek cooperation at a minimum, the prospect for the Turkish Cypriots is for little overall improvement. As long as the Turkish dole continues and the political status quo is maintained, the TCPA should be able to hold the community together; but economic activity in the enclaves -- for the foreseeable future -- will fail to achieve anything like the level of the Greek activities that surround them.

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\* In late 1969 there were approximately 30,000 Turkish Cypriots living in London, about one-fifth of the entire Turkish Cypriot population.

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